

The United States at the outbreak of the Civil War were conducting their financial operations through the independent Treasury. The notes of the State banks formed a large part of the medium of exchange in private transactions, but only specie was accepted in payments to the government. The aid of the banks was not sought in handling funds, in making transfers, in placing loans, or in paying interest. This at least was the theory of the independent Treasury, although in fact the absence of proper depositaries led many public officers to deposit their funds temporarily in the banks at their own risk.¹ The circulation of the country outside of the Treasury on July 1, 1861, consisted of \$246,400,000 in specie and \$202,005,767 in the notes of State banks, making a total of \$448,405,767, or \$13.98 per capita.² The essential question for Mr. Chase, Lincoln's Secretary of the Treasury, was whether the operations of a great war could be carried on through these instrumentalities. The question was the occasion of much discussion at the time and has never been answered to the satisfaction of all sides. The answer of Mr. Chase was that the operations of the war could not be carried on upon a basis of specie and State bank paper.

The government was obliged almost at the outset to abandon the position that it was able to carry on its own finances without the help of the banks. Some small loans had been placed by public subscription during the administration of Buchanan, but it was perfectly obvious that great sums could not be obtained quickly except from the banks, which had the keeping of the transferable capital of the country. Secretary Chase held a conference in New York on August 9, 1861, with representative bankers of New York, Philadelphia, and Boston. They agreed to advance to the Treasury \$150,000,000 in gold, to be secured by three-year notes bearing interest at 7.30 per cent., and to be reimbursed as the proceeds of the sale of bonds were covered into the Treasury. This union of the banks of New York, Boston, and Philadelphia in support of the public credit was one of the most

¹Kinley, 60-61.

²Finance Report, 1894, p. cviii.